COMMONWEALTH of VIRGINIA

Department of Medical Assistance Services

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The Honorable Phillip A. Hamilton
Member, Virginia House of Delegates
Post Office Box 1585
Newport News, Virginia 23601

Dear Delegate Hamilton:

This is in reply to your letter of October 29, 2008, expressing your interest in the Department of Medical Assistance Services' (DMAS) procurement for MMIS Fiscal Agent Services. First, you are correct that the Request for Proposals (RFP) is for a takeover of our current MMIS with minor enhancements, a fact that was known to potential bidders well in advance of the August 13, 2008 release of the RFP.

The decision to procure a new vendor through a "takeover" rather than a "new system" was both a business and financial one. Our current system was a "new system" when it was first implemented in 2003, just five years ago. From a business perspective, this system meets our current business needs, and is flexible enough to continue to support these needs in the years to come. From a financial perspective, the development and implementation of our MMIS cost over $60 million, compared to an estimated $10 million for a "takeover". Therefore, it is difficult to justify the expense of a new system now or in the near future. Furthermore, the Centers for Medicare and Medicaid Services (CMS) has made it clear to us that they will not provide federal funding for a new system so soon after incurring the cost of 1) implementing the existing new system, and 2) incurring the cost to modify that system for the required "National Provider Identifier" (NPI) change implemented over the past two years. The federal government provides 75% of the funding for most MMIS costs, and this funding is critical to procuring MMIS fiscal agent services.

Following are DMAS' responses to your questions:

(1) "Does our current system have the flexibility to support a Medicaid reform initiative around the Deficit Reduction Act to balance cost efficiency with better health outcomes in our near-future?"

As stated above, DMAS' current MMIS does have the flexibility to meet future business and program needs, including Deficit Reduction Act initiatives. In fact, the MMIS was modified in 2007 to accommodate two DRA pharmacy initiatives to capture information to receive additional rebates from drug manufacturers on professional and institutional drug claims.

(2) "Has DMAS looked at the system capabilities for future Federal requirements such as ICD-10 and HIPAA 5010? Will those requirements deem a change order or modification to the current system for compliance?"

We have also analyzed system capabilities for future federal requirements, including a high-level assessment for upgrades to the HIPAA-required ICD-10 Code Sets and 5010 Transactions. Since DMAS' MMIS is already compliant with current versions of the HIPAA-mandated Transactions and Code Sets, the version upgrades will be accomplished via a system change order.

(3) "If the answer to the first two questions is "NO", would it make sense or be possible to reduce the base term of the resulting contract from 4 years to 2?"

Since the answers to your first two questions are "yes", DMAS does not think it would be advantageous to reduce the term of the base contract from four years to two. Again, it is highly unlikely that CMS would be willing to approve federal funding for a second procurement within this short time frame. We also believe that such a change would result in significantly higher costs to the Commonwealth. In addition to incurring the cost to develop the current RFP and compensate the vendor for the cost to transfer the system, DMAS would incur significant costs for another procurement and for development and implementation of a new system shortly thereafter. DMAS does not have the resources to support a second procurement, a process that takes 3 to 4 years, that would overlap the project to take over the current MMIS.

(4) "Does the current RFP provide an 'incumbency advantage' for CSC thereby reducing competition in the procurement process and make the Commonwealth vulnerable to potentially excessive administrative cost escalation?"

No. It is not unusual for there to be an incumbent under any competitively bid contract. The rules governing this RFP are known to all offerors in advance of the competition and the specifications reflect DMAS' needs and are not drawn

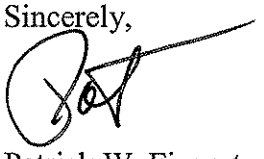
to favor CSC or any offeror. The contract will be awarded to the vendor who presents a proposal offering the best value to the Commonwealth. That value will be determined based on a combination of points awarded during the technical evaluation of proposals, points awarded for small business participation, and cost.

(5) "Given the unique circumstances surrounding the incumbent contractor, has DMAS considered permitting all bidders to bid incumbent staff members? If so, has the Department disseminated such incumbent knowledge to all bidders?"

Whether CSC, or any other offeror, proposes current First Health staff for these positions, is not under DMAS' control. Current First Health staff are free to enter into an agreement with any potential offeror.

In summary, DMAS is confident that the MMIS takeover as outlined in the RFP is the most economic and best approach. Thank you for bringing your concerns to our attention. Please let me know if you have further questions.

Sincerely,



Patrick W. Finnerty

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cc: Kim Piner, Office of the Attorney General